

IN THE
United States Circuit Court of Appeals,
FOR THE NINTH CIRCUIT.

CINEMA PATENTS COMPANY, INC., a corporation,

Appellant,

—against—

COLUMBIA PICTURES CORPORATION, a corporation,
and WILLIAM HORSLEY FILM LABORATORIES,
INC., a corporation,

Appellees.

BRIEF FOR APPELLANT.

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IN THE
United States Circuit Court of Appeals,
FOR THE NINTH CIRCUIT.

No. 6852.

CINEMA PATENTS COMPANY, INC., a corporation,
Appellant,
—against—

COLUMBIA PICTURES CORPORATION, a corporation, and
WILLIAM HORSLEY FILM LABORATORIES, INC., a corpora-
tion,
Appellees.

BRIEF FOR APPELLANT.

Statement of the Case.

This is a patent suit involving the scope of a lease and license agreement.

THE PLEADINGS.

Plaintiff* filed a bill (Tr. 3) in the District Court charging defendants with infringement of two patents: Leon Gaumont No. 1,177,697 (Exhibit 1) granted April 4, 1916; and Frederick B. Thompson No. 1,281,711 (Exhibit 2) granted October 15, 1918—both covering apparatus for processing motion picture film. The Gaumont patent also contains a method claim. The bill, in the usual form, does not anticipate any defenses.

* For convenience, the appellant will in this brief be referred to as the plaintiff, and the appellees as the defendants.

The defendants filed separate answers (Tr. 12, 48) which were the same in substance.

Various defenses were mentioned, but only two of them urged at the trial: (1) A lease and license agreement under which the defendants sought to justify their acts complained of; (2) the pendency of an action in the Superior Court of the County of Los Angeles, State of California, asserted by the defendants to bar the present suit.

The lease and license agreement is set forth in full (Tr. 23-34) as Exhibit A; and the "First Amended Complaint" in the Superior Court action is produced (Tr. 34-47) as Exhibit B.

PROCEEDINGS PRIOR TO TRIAL.

The plaintiff moved for an order of reference to a Special Master for trial (Tr. 73 *et seq.*), which motion the defendants resisted; but the motion was granted and the Order made by District Judge Jacobs (Tr. 80), the objection of counsel for the defendants being noted and an exception allowed.

The defendants, however, made no further point of the reference.

By leave of the Court the plaintiff took depositions of two witnesses, R. C. Hubbard and M. J. Siegel in New York City prior to the trial (Tr. 103-120).

TRIAL AND JUDGMENT.

The case was tried before David B. Head, Esq., appointed Special Master by the Order of reference, who subsequently filed his Report (Tr. 121-128) in which he concluded that:

1. Title to the patents in suit is vested in the plaintiff.
2. The patents are good and valid in law.

3. The patents are infringed by the defendants' use of the altered developing machine (described in the Report).

The Report recommended that a decree be entered in conformity with the Report, finding the Letters Patent in suit infringed, and directing that an accounting of profits and damages be had.*

Defendants filed Exceptions to the Master's Report (Tr. 129), which were argued before District Judge William P. James.

Judge James, in a Ruling on Exceptions to Master's Report (Tr. 131-134) refused to sustain the conclusions or to adopt the recommendations of the Master on the question of infringement; and a Final Decree (Tr. 135) was entered dismissing the Bill with costs.

From this Decree the plaintiff appeals.

FACTS NOT IN DISPUTE.

The Leasing Agreement. On June 26, 1925 the agreement, Defendants' Exhibit A, was entered into between the Chester Bennett Film Laboratories, a corporation, Frederick B. Thompson, Grace Seine Thompson of one

Master's Report, finding facts and recommending decree in favor of plaintiff, is entitled to great weight and should not be disregarded unless clearly wrong. This was true even before the Supreme Court adopted new Equity Rule No. 61½; the Circuit Court of Appeals for the Eighth Circuit, in *Parker et al. v. Interstate Trust and Banking Company et al.*, 56 F. 2d 792, saying at page 793:

"* * * the master, though the order was consented to was really the court's master by appointment, and not the parties' master by consent. *Denver v. Denver Union Water Co.*, 246 U. S. 178, 38 S. Ct. 278, 62 L. Ed. 649. Even so, the findings of a master are entitled to great weight, and should not be disregarded unless clearly wrong (*Paepcke v. Kirkman* [C. C. A.], 55 F. 2d 814), especially where testimony is taken orally before the master, and the judge acts only on the record. *In re Slocum* (C. C. A.), 22 F. 2d 282, 285; *In re Perel* (D. C.), 51 F. 2d 506; *Baltic Cotton Co. v. U. S. A.* (C. C. A.), 55 F. 2d 568."

This opinion was written just prior to the adoption of Equity Rule 61½. Whether or not the rule may be considered retroactive, it clearly indicates that the attitude of the Supreme Court corresponds to the foregoing expression by the Circuit Court of Appeals for the Fifth Circuit.

party, and William Horsley Laboratories, Inc. of the other party, whereby for a consideration the parties first mentioned agreed to manufacture and install two motion picture film developing machines in the laboratory of the other party, and granting a license under several patents including Plaintiff's Exhibit 2, and Defendants' Exhibits C-G inclusive. The Gaumont patent, Plaintiff's Exhibit 1, was not owned by the licensor.

By the contract the two machines were to be leased by the first named parties to the other party, for a specified monthly payment of rentals and royalties computed on the number of feet of film processed.

Machines Installed. Thereafter two film developing machines were manufactured and installed as agreed, in the William Horsley Film Laboratories.

These machines were what are known in the industry as "positive" machines; that is they were suitable only for developing *positive* motion picture film, as distinguished from *negative*.

Defendants Alter One Machine. In June or July, 1929, the William Horsley Laboratories, without the consent of the other contracting parties or their successors, added to one of the machines an additional developing tank and other parts including a frame, spools, shafts and driving mechanism necessary to carry the film through the tank, thereby adding to the time the film could be treated in the developing fluid, and *adapting the machine to the development of negative film.**

Present Status of the Parties. The plaintiff has succeeded to the rights under the contract of the Chester Bennett Laboratories and the Thompsons, including ownership of the Thompson patents and of the leased developing machines.

The defendant, Columbia Pictures Corporation, owns,

* Emphasis in this brief is ours, whether by italics or bold face type.

controls and operates the William Horsley Film Laboratories.

Machine Described. The patented machine—and therefore the machine leased to the defendants—is an automatic device for processing long strips of motion picture film.

The principal elements are the tanks, arranged in a row, and containing suitable chemicals; several series of spools mounted on shafts over which the film is supported, and travels; and a combination of gears, shafts and a source of power for rotating some of the spools to advance the film through the various tanks. Succeeding the last tank in the series is a drying cabinet in which the film is thoroughly dried while passing through.

Types of Film Processed. In the art there are three types of film to be developed: the picture *negative* which is the film that comes from the camera; the *sound track* negative upon which is recorded the sound as translated by a light valve in the recording device; and the *positive*, which is photographically printed from the two negatives in any number desired, resulting in reversal of lights and shadows of the negatives. The positive films, termed in the parlance of the trade “release prints” are used in the projection of the motion picture on the screen.

The development of negative* film requires a longer period of treatment in the bath of developing fluid than in the case of positive film, relatively two to four times. To accomplish this, the negative film must be advanced more slowly than the positive, or must be treated in a machine having greater developing capacity: that is, larger tanks, or more of them, with corresponding film supporting and advancing mechanism.

Other facts are referred to in the ARGUMENT.

* The term “negative” as used hereinafter in this brief means picture negative unless otherwise specified.

THE ISSUES.

Plaintiff contends that adding the second developing unit and using it for developing negative film is an infringement of the patents in suit.

The Thompson patent No. 1,281,711—Exhibit 2—dominates the group mentioned in the lease and license agreement, having combination claims directed to the machine as a complete structure. The other patent, Gaumont No. 1,177,697 was acquired by a successor of the Chester Bennett Laboratories and the Thompsons and subsequently came into the hands of the plaintiff. The Gaumont patent is earlier than, and dominates, the Thompson patent.

Plaintiff concedes that, so long as the defendants acted within the lease and license agreement, they enjoyed by operation of law the protection of the Gaumont patent as well as the Thompson patents mentioned in the agreement; but, plaintiff contends that the defendants went beyond the scope of the license by altering one of the machines and thereafter using it, and thus became subject to action for infringement of both the Thompson and the Gaumont patents.

The defendants admit that the altered machine and the use thereof is covered by the patents in suit, but assert that they acted within the said agreement of June 26, 1925.

The pivotal question involving the merits is:

Did the defendants, in altering the developing machine and thereafter using it to develop negative film, act within the license granted them in the agreement of June 26, 1925?

If they acted within the license in so doing, they did not infringe. If the license did not protect them in their acts, they did infringe.

Another question argued by the defendants before the trial court, but not decided by that court and therefore not properly raised in this appeal (*Willard et al. v. Union Tool Co.*, 8 F. (2d) (C. C. A. 9) 264) is:

Did the filing of the Superior Court case bar the present action?

Specification of Errors Relied Upon.

All of the errors assigned (Tr. 137) are relied upon; they are here repeated and explained, pursuant to Rule 24 of this court.

I. That the court erred in refusing to adopt the recommendations and sustain the conclusions of the Special Master.

The Special Master concluded (Tr. 127): "1. That title to Letters Patent Nos. 1,177,697 and 1,281,711 is vested in the plaintiff." No exception was taken by either party to this conclusion; and the Court's Ruling on Exceptions to Master's Report is silent with respect to title.

The Master next concluded: "2. That said Letters Patent are good and valid in law." No exception was taken by either party to this conclusion; and the Court's Ruling is silent with respect to validity.

The Master further concluded: "3. That said Letters Patent are infringed by the defendants' use of the altered developing machine heretofore described." Defendants excepted to this conclusion in Exception No. 4 (Tr. 130), asserting: "The Master erred in finding 'That said Letters Patent are infringed by defendants' use of the altered developing machine heretofore described'."

The Court held as follows (Tr. 133): "My conclusion is, after an examination of the record, that the license agreement authorized the use of two machines in the

processing of films in any way so long as that use was within the description of the invention as disclosed by the patents which were referred to in the agreement. It follows that the acts of the defendants did not constitute infringement."

The Special Master recommended (Tr. 127): "that a decree be entered in conformity with this report, finding the Letters Patent in suit infringed and directing that an accounting of profits and damages be had." No exception was entered to this recommendation.

The Court ruled, however (Tr. 134) that a decree "be entered in favor of the defendants".

The Master's Report was silent on the defense of election of remedies.

However, the defendants excepted to this silence in Exception No. 6, asserting (Tr. 130): "The Special Master erred in not finding that the present licensor in filing suit in the Superior Court for cancellation of the license and collection of royalties, which suit was pending at the time the present suit for infringement was filed, had made an election which precluded the Licensor from maintaining the present suit for infringement."

The Court (Tr. 133) declined to consider this point in view of its decision that the bill be dismissed because of no infringement.

II. That the Court erred in finding that the license agreement authorized the use of two machines in the processing of film in any way so long as that use was within the description of the invention as disclosed by the patents which were referred to in the agreement.

As found by the Special Master (Tr. 125), a "consideration of the contract as a whole discloses that its purpose is to provide for the leasing and use of two specific developing machines. The license, while in general and broad

terms, is evidently intended to be in aid of and to protect the lessee in the use of the machines.

“Therefore, it follows, that the license has no broader scope than to grant a right under the patents recited, to use, maintain and operate the machines which were the subject of the contract.”

The defendants excepted to this finding in Exception No. 5, asserting (Tr. 130): “The Master erred in finding that ‘A consideration of the contract as a whole discloses that its purpose is to provide for the leasing and use of two specific developing machines.’ (Master’s Report, p. 6, ll. 9 to 11.)”

The Court impliedly sustained this Exception (Tr. 133), in ruling: “The exceptions of defendants to the master’s report, insofar as they propose objections which have been disposed of in the foregoing discussion, are sustained.”

III. That the Court erred in finding United States Letters Patent No. 1,177,697 to Leon Gaumont, not infringed.

IV. That the Court erred in finding United States Letters Patent No. 1,281,711 to Frederick B. Thompson, not infringed.

V. That the Court erred in ordering, adjudging and decreeing “That the Bill of Complaint herein be and the same is hereby dismissed.”

VI. That the Court erred in ordering, adjudging and decreeing “That the Defendants have and recover judgment against Plaintiff for the sum of \$320.20, Defendants’ costs and disbursements herein * * *.”

VII. That the Court erred in not granting the relief prayed for in the Bill of Complaint for infringement of said United States Letters Patents No. 1,177,697 and No. 1,281,711.

ARGUMENT

On Infringement.

POINT 1.

The rules applicable to the construction of contracts generally apply to the construction of license agreements. 48 C. J. 266 (Sec. 415). Citing cases.*

POINT 2.

A contract must be interpreted by taking into consideration the contract as a whole, together with the matter to which it relates.

Civil Code of California, Secs. 1641, 1647;
Burdell v. Denig, 92 U. S. 722.

“It is certainly true, that, in construing a written instrument, it is necessary and admissible to look to all the surrounding circumstances of the transaction which are necessary to discover its meaning.”

Burdell et al v. Denig et al, supra.

Having these established principles in mind, we now examine the contract in dispute.

* *Eskimo Pic Corp. v. National Ice Cream Co.*, 20 F. (2d) 1003 (affd. 26 F. (2d) 901); *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 Fed. 288, 25 C. C. A. 267, 35 L. R. A. 728; *Morse v. O'Reilly*, 17 F. Cas. No. 9,858, 4 Pa. L. J. R. 75, 6 Pa. L. J. 501; *Star Salt Caster Co. v. Crossman*, 22 F. Cas. No. 13,321, 3 Bann. & A. 281, 4 Cliff, 568; *Wetherill v. Passaic Zinc Co.*, 29 F. Cas. No. 17,465, 6 Fish. Pat. Cas. 50, 9 Phila. (Pa.) 385; *Bell, etc., Co. v. Spoor*, 216 Ill. A. 221.

POINT 3.

The contract of June 26, 1925 is essentially a lease of two specific motion picture film developing machines.

The two machines were built by plaintiff's predecessors under paragraphs 2, 3 and 4 of the contract (Tr. 26, 27), and installed in the defendants' laboratory in Hollywood.

The specific leasing clause is found in paragraph 5 of the contract (Tr. 27) :

“the party of the fourth part shall have the right to use, operate and maintain the said machines * * * in treating, processing and developing photographic films, and the parties of the first, second and third part agree to lease, and do hereby lease to the said party of the fourth part, the said machines * * * for the consideration hereinafter set forth.”

All subsequent paragraphs in the contract relate to royalties, option to purchase, and costs and expenses incident to “operation and maintenance.”

The lease contained no restriction prohibiting the use of the machines for developing negative film; but the machines were designed and built for processing positive film only (Tr. 108), and were so used by the defendant laboratory for several years (Tr. 62; Interrog. 19; Tr. 66, Ans. 19). During that period the laboratory developed negative film by other means (Tr. 99-100).

These circumstances indicate clearly that the parties intended the machines to be used for the development of positive film only.

The two machines in question are the property of the plaintiff, and remain so; and the defendants have “no

title or interest therein other than the right to the use thereof pursuant to the terms of this lease and license agreement"—paragraph 14 of the contract (Tr. 31).

Throughout the contract reference is made to only *two* machines. The lease and the license are co-extensive in that respect. The contract recites (Tr. 25): "WHEREAS, the party of the fourth part is desirous of acquiring a license to operate *two* machines * * *" and "WHEREAS, the party of the fourth part is desirous of having the parties of the first, second and third part construct and install *the two* machines * * * in the film laboratory of the party of the fourth part * * *"

There can be no doubt that the contract is a lease. Paragraphs 2 to 14, both inclusive (Tr. 26-32), constitute the lease. The provisions of these paragraphs, being all but one paragraph of the contract, are not alternative to any other provisions, but are mandatory; and the provisions thereof were carried out by the parties.

The *two* developing machines were manufactured, and installed, as required by the lease. The defendant laboratory had the right to **use** them, **operate** them, and **maintain** them, according to the terms of the lease—and had no other right with respect thereto.

POINT 4.

The license clause in the contract is subservient to the lease and is restricted thereby.

The license is contained in paragraph 1 of the contract (Tr. 25) in the following words:

“hereby grant to the party of the fourth part the right, liberty and license to use two machines for treating, processing and developing photographic films for the full term of any and all of the aforesaid patents * * * and all other patents that may be

granted * * * on the aforesaid patent applications or for any improvements thereon, for the consideration, period of time and *under the conditions herein-after expressed.*”

The phrase “under the conditions hereinafter expressed” must necessarily mean the leasing provisions of the contract, as those provisions comprise the entire remainder of the contract.

The defendant Columbia Pictures Corporation acknowledged that the license is subservient to the lease, in answering plaintiff’s interrogatory No. 8. The interrogatory reads (Tr. 61) :

“8—Is it true that on or about June 26th, 1925, William Horsley Film Laboratories, Inc., leased from Chester Bennett Film Laboratories, a California corporation, Frederick B. Thompson, and Grace Seine Thompson, two Spoor-Thompson motion picture film developing machines, and accepted in connection with said lease a license to operate said machines under certain patents, including United States Letters Patent No. 1,281,711?”

The defendant, by the sworn statement of Samuel J. Briskin, Assistant General Manager, answered this interrogatory as follows (Tr. 64) :

“ANSWER TO EIGHTH INTERROGATORY :

“I am informed that this is true and I am also informed that Cinema Patents Company, Inc., is now the owner of the license and lease agreement and the machines mentioned therein and that Wm. Horsley Film Laboratories still uses said machines, pursuant to the terms of said license.”

Clearly the license is to use the two developing machines which the first party was required to and did manufacture

and install in the laboratory of the fourth party. The license and the lease are inseparable, referring to the same "two" machines. Since the license is granted "under the conditions hereinafter expressed" and this limitation refers definitely to the lease, the licensee's rights are restricted by whatever limitations appear in the lease.

Moreover the *only* right obtained by the defendants under either the license or the lease is the right to use.

This is true, even though the lease also contains the words "operate and maintain". These words are implied in the "right to use". To operate is an element of use, and to maintain is to service and repair.

The defendants here cannot read into their license an implied right to manufacture the two machines which they had the right to use, because the function of providing the machines is specifically delegated to the lessor.

POINT 5.

By manufacturing and building into one of the leased machines several years after the acceptance and continued use of the machines an additional developing unit by which the machine was adapted for developing negative film, the defendants "manufactured" within the meaning of the patent law: and therefore, acted beyond the scope of their license.

That the change was unauthorized is evident from the following (Test. of William Horsley, Tr. 92):

"When we were about to make this other change which I have testified to, that is, the addition of the developing tank to the one machine, I requested the Chester Bennett Laboratories to furnish me with parts. They told me to write a letter on it. I wrote

a letter making the request but they never answered it; and they positively refused to let me have parts. The Chester Bennett Laboratories previous to my requesting these parts had been sold out to the Consolidated Film Industries, and they were the ones that refused to furnish me with the parts."

On re-direct examination, Mr. Horsley continued (Tr. 92-93) :

"I have no copy of that letter I say I wrote asking for these parts. I left it in the office of Mr. George K. Spoor a year ago last November. I do not remember the date of the letter. It was about the month of May, 1929. In the letter I asked them to furnish me one extra section for my developing machine and also to state the price they would charge me. I told them I wanted to make the machine, or one section, longer to develop negative. I think I stated that in the letter, although I am not positive of it. Anyway, I made it clear to them that I wanted to put on another section on the developing end of the machine so that I could develop negative films. I received no reply to the letter. They ignored me completely. I wrote the letter to the Chester Bennett Laboratories. They were operating as the Chester Bennett Laboratories, Mr. George Yates, manager."

The two positive machines were operated by the lessee to develop 20,231,823 feet of film before the one was changed as complained of in this suit (Tr. 62, Interrog. 19; Tr. 66, Ans. to Interrog. 19).

The changes complained of were not to improve the operation of the machine (Tr. 63, Interrog. 23; Tr. 67, Ans. to Interrog. 23).

The acts complained of are summarized by Plaintiff's Interrogatory 12 (Tr. 61) reading:

"12—Specify what repairs, replacements, changes, modifications, alterations or additions have been made upon each of said machines since first installed and operated, when and by whom and at whose order?"

and by the answer of defendant William Horsley Film Laboratories to this Interrogatory (Tr. 70) as follows:

"ANSWER TO TWELFTH INTERROGATORY:

"The machine shown in the left hand portion of Exhibit 'A'* attached hereto is the same as it was when originally installed. The machine shown in the right hand portion of said photograph has had added to it an enlargement of the developing tank, together with an extension of the main frame to support the same, a set of driving rollers, together with associated gears and shafts and a set of idle rollers. These were added in June or July of 1929, by order of William Horsley. * * * Both of the matters herein referred to were done by Mr. Horsley as President and General Manager of the corporation."

William Horsley, president of William Horsley Laboratories, Inc. until August 1929, testified:

"The function of that additional developing section was to give us a longer period of development. It was customary in developing practice to give negative film the equivalent of four times as much developing time as positive film" (Tr. 90).

The positive machine has a capacity of 265 feet of 35 millimeter film in the developing unit (Tr. 62, Inter-

* See photograph opposite page 68 in the Transcript.

rog. 13; Tr. 65, Ans. to Interrog. 13) and the (altered) negative machine may contain twice as much, 530 feet, at one time (Tr. 62, Interrog. 14; Tr. 65, Ans. to Interrog. 14).

Since the one "positive" machine has been changed to a "negative" by the addition of a second developing unit, all the defendants' *picture negative* has been developed in the "negative" machine (Test. Seid, Tr. 98).

The positive machine (the one on the left-hand side of the picture, Tr. 68) was never used for developing negative film (Test. Horsley, Tr. 90); and is not suitable for developing negatives, in the opinion of plaintiff's expert Roscoe C. Hubbard (Tr. 108).

Seid (defendants' laboratory superintendent) made the point that the positive machine had been used to develop *sound track* negative, as distinguished from *picture* negative; but Horsley evidently did not regard sound track as *negative*, and even Seid admitted that the time of development of negative sound track runs close to the range of developing time for positive (Tr. 98); and he agreed with Horsley that they had never developed any picture negative in the positive machine (Tr. 99-100). When pressed by his own attorney during cross examination he responded by asserting that the positive machine *could be* used for developing negative picture film (Tr. 98), but he conceded on re-direct examination that the quality of the negative would be superior if developed in the negative machine (Tr. 100), and in that conclusion agreed with plaintiff's expert Hubbard, who said (Tr. 108):

"As I see the machine shown on the left hand side of this picture 'A', it is not suitable for developing negatives. The machine on the right side can be used for developing negatives. Quite an advantage in result would be obtained by the use of the machine on the right side of the picture for develop-

ing (negative) film over the use of the machine on the left side of the picture. That advantage would lie in the increased time in which film would remain in the developing solution. In order to obtain proper photographic quality in negative, it is necessary to develop at least three times as long as positive."

The trial Court, in its Rulings on Exceptions to Master's Report, stressed the point (Tr. 132) that the "licensee did not reconstruct any of the principal parts of the machine nor alter its method of operation".

That, however, is not consequential. The fact is that the defendants *built on* an extra developing unit which brought to the machine as a whole a new function. It could not possibly be said to constitute repair, as there was nothing to need repair. It could not be regarded as the replacement of worn parts, as the new parts did not take the place of any existing parts, but *added a new element* to the apparatus.

The acts complained of may not have amounted to "reconstruction" as defined in some of the cases; but they certainly did amount to "manufacture"; and the right to manufacture is one thing *which the license did not grant*.

This distinction the trial Court failed to note.

The Court said (Tr. 133) "the license agreement authorized the use of two machines in the processing of films in any way so long as that use was within the description of the invention as disclosed by the patents which were referred to in the agreement." Plaintiff concedes that the two machines, in their **original** form, may be used in any way so long as *that use is within the description of the invention*. But the Court's conclusion, which immediately follows, that: "the acts of the defendants did not constitute infringement", is not sound.

In reaching that conclusion the court wholly ignored the provisions of the contract having to do with the building, installing and leasing of the machines.

The right to build the machines was delegated absolutely to the licensors. The right to use is the only right granted by the license clause.

POINT 6.

It is fundamental that the "right to manufacture, the right to sell, and the right to use, are each substantive rights, and may be granted or conferred separately by the patentee." *Adams v. Burke*, 17 Wall. 456.

"Any one or two of these rights may be expressly conveyed by a patentee, while the other is expressly retained by him." Walker, 6th Edition, Section 343.

To illustrate, a license to make and use does not authorize any sale of the thing so made and if the licensee sells the thing he infringes the right of the patentee and may be held for damages and enjoined. *United States v. General Electric Company*, 272 U. S. 476, 71 Law. Ed. 362.

The Circuit Court of Appeals for the Eighth Circuit summarized the rule in the following words: "It is the general rule * * * in patent cases that a limited license conveys only the rights defined therein and that if the licensee makes any other or different use, either as to time or place, than that authorized by the license he becomes an infringer and his limited license is no justification." *St. Louis Street Flushing Machine Co. v. Sanitary Street Flushing Machine Co.*, 178 Fed. 923, certiorari denied;

Sanitary Street Flushing Machine Co. v. St. Louis Street Flushing Machine Co., 219 U. S. 588, 55 Law. Ed. 348.

Defendants may argue that an express license to use a patented device implies a right to make that device—which might be sound reasoning if the right to make had not been specifically retained by the patent owner—as it was here.

There was absolutely nothing wrong with the machines built and installed by the patent owner. On the contrary, “The machines had at all times operated satisfactorily in the development of positive film, I was quite enthusiastic about their operation, and I am yet” (Test. Wm. Horsley, Tr. 93).

The subsequent conversion of one of the positive developing machines into a negative machine was “not to improve the operation of the machine so far as the development of positive film was concerned. It was for the purpose of making the machine so that I could develop negative on it, and for that purpose only” (Test. Wm. Horsley, Tr. 93).

The defendants make no claim of right to the negative machine on the theory that its features are contained in other of plaintiffs’ patents. The negative machine is distinctly *not* a patentable improvement over the positive machine. Both the positive and the negative machines fall, without patentable distinction, under the patents in suit. If one of the machines had been originally made with the capacity for developing negative film, this action would not lie. But—while the contract did not specifically mention positive machines by name—it was clearly the intention of the parties to provide for positive machines, and not negative machines. This is established by the fact that the Horsley laboratory accepted the machines *as installed*, and used them from 1925 or 1926 to the middle of 1929 for positive film only. As Mr. Horsley testified (Tr. 93):

“Prior to the time that I changed this machine

over I had not developed negative film on either of those two machines; I had, however, developed positive film on both machines, running into the millions of feet.”

POINT 7.

As a principle of law, the lessee of a patented machine, in the absence of an express license enlarging the grant, should have no broader license than does the purchaser of a similar patented machine; and should be held to be an infringer under circumstances by which the purchaser becomes an infringer.

The closest authorities are cases defining rights of purchasers of patented articles.

A purchaser may use, repair and sell.

Here the lessee may *use, operate* and *maintain*. The terms “use” and “operate” are synonymous; and the word “maintain” means about the same as “repair”. Thus the lessee here is given the same right of use and repair as has a purchaser and no more. The purchaser, however, also acquires the right to sell, with which we are not here concerned.

Two recent cases which approach the point are—*George Close Company v. Ideal Wrapping Machine Company*, 29 F. 2d (C. C. A. 1) 533; and *Miller Hatcheries, Inc. v. Buckeye Incubator Company*, 41 F. 2d (C. C. A. 8) 619.

In the first case the plaintiff was in the habit of furnishing candy cutting machines, all operating on the same principle, under the same patent, but providing different machines for cutting different *sizes of candy*. The defendant, after operating one machine for a while, asked the

plaintiff to furnish parts necessary to convert the machine into one for cutting larger caramels. This the plaintiff refused to do—as in the case at issue. The defendant in the reported case thereupon employed a machinist to reconstruct its machines so as to cut and wrap the larger caramel. This involved principally a substitution of a cutting wheel with eighteen knives instead of twenty-four, and spaced farther apart.

The Court recognized the old rule laid down in *Chaffee v. Boston Belting Company*, 22 Howard 217, 16 L. Ed. 240, that the machine purchased passed out of the limits of the patent monopoly; but held that the changing of the candy cutting and wrapping machine from one equipped to work with small caramels to one adapted to work with large caramels was a reconstruction constituting infringement. Quoting from page 534:

“It is not and cannot be contended that such reconstruction does not destroy the identity of the machine purchased. Plainly it does; the reconstructed machine is, in the candy manufacturing art a new or different machine (producing a different result) from that manufactured and sold by the patent owner. Walker, Patents (5th Ed.), Section 302a. We can see nothing in the patent statutes as construed by the Supreme Court or by any other court to justify the contention that the defendant’s acts did not constitute infringement. The defendant has made and is using the invention in a machine in substantial part made by it—not purchased from the owner of the patents.”

By the soundest analogy the changing of a developing machine equipped for positive work, into a developing machine for negative work, causes the machine to produce a new result, and constitutes infringement of plaintiff’s patents.

The Circuit Court of Appeals for the Eighth Circuit reaffirmed the rule, in *Miller Hatcheries, Inc. v. Buckeye Incubator Company, supra*.

There the defendants took incubators which had been sold by the plaintiff and changed them so they would accommodate more eggs, by putting twelve trays in the space where nine had been in the incubators as purchased. The defendants used the incubators after reconstructing them. The purpose of the change was to increase the capacity of the incubators and thereby reduce the number necessary to be bought.

The Court discussed most of the older cases usually advanced by the defendant under similar facts, and following *George Close Company v. Ideal, etc., supra*, held that there was infringement beyond question.

The Court called attention on page 621 (41 F. 2nd) to *Leeds & Catlin Company v. Victor*, 213 U. S. 325; 53 Law. Ed. 816 where the Supreme Court said:

“The license granted to a purchaser of a patented combination is to preserve its fitness for use so far as it may be affected by wear or breakage. *Beyond this there is no license.*”

On page 622 the Court calls attention to *Goodyear, etc. Company v. Jackson* (C. C. A.), 112 Fed. 146, quoting from page 150:

“A purchaser, then, may repair ‘but not reconstruct or reproduce the patented device or machine. Repair is ‘restoration to a sound, good, or complete state after decay, injury, dilapidation, or partial destruction’. Reconstruction is ‘the act of constructing again’. Reproduction is ‘repetition’ or ‘the act of reproducing’.”

In conclusion the Court said on page 622:

“Applying the principles announced in the foregoing authorities to the case at bar it is clear that the changes made in the incubators were not justified as repairs or replacements for repairs or replacement were not necessary. The incubators were new. * * * The reconstruction was in our opinion such as to destroy the identity of the incubators as they were received from the hands of the original vendor. By reason of the reconstruction they had become incubators of greatly increased capacity, but which embodied all the elements of the two Smith patents. We think the reconstruction clearly constituted infringement.”

If decreasing the number of cutting blades on a candy cutting machine in order to cut fewer, and larger, pieces of candy, is infringement; and if adding some extra trays to an incubator to increase its capacity is an infringement; *a fortiori* is the conversion of a positive developing machine into a negative machine by the addition of a second developing unit an act of infringement.

POINT 8.

Plaintiff, by its licensing system, receives higher royalties on negative film than on positive; defendants' defiance of plaintiff's rights being the only exception.

Cinema Patents Company manufactures separate machines for positive and for negative developing (Test. Hubbard, Tr. 108): in the negative machines additional tanks are added for developer solution, additional rollers and mechanism are added to feed the film through these tanks.

In the Long Island Laboratory of Paramount Public Corporation there are five positive machines similar to the positive machine in the defendants' laboratory, and there is one negative machine in the Paramount laboratory corresponding in the matter of number of developing tanks and associated mechanism with the *negative* machine in controversy (Test. Hubbard, Tr. 111). These five positive and one negative machines are owned by the plaintiff and leased to Paramount (Test. Morris J. Siegel, Tr. 113) on a royalty basis.

Plaintiff also leases machines to H. E. R. Laboratories, and to Consolidated Film Industries, and also licenses Consolidated to operate additional developing machines owned by Consolidated (Tr. 114). These lessees and licensees pay the plaintiff a higher royalty per foot on negative film than they pay on positive film (Tr. 115).

The defendants' contract, made in contemplation of positive developing, calls for a small royalty based on a single rate. By developing negative film, ostensibly under the contract, the defendants seek to obtain the advantage of the low rate, thus depriving the plaintiff of the additional income it would otherwise derive from its established practice of charging a higher royalty for the use of negative machines.

On Election of Remedies.

Prefatory.

In their Answers, defendants allege (Tr. 22, 57) that the plaintiff commenced an action against one of the present defendants, in the Superior Court of California, prior to filing the present bill. The defendants do not plead the effect thereof.

It is not denied that the action was brought, and that the First Amended Complaint is properly set forth (Tr. 34

et seq.). Moreover it is admitted that the Superior Court action is at issue and is now pending and has not been dismissed.

The First Amended Complaint must be read (Tr. 34 *et seq.*) to be fully understood. Numerous facts surrounding the agreement of June 26, 1925 (Tr. 23 *et seq.*) and subsequent happenings are alleged. The complaint prays (1) for an accounting under the contract, (2) for a declaration of forfeiture of the contract and return of the machines, (3) for declaratory relief and (4) for a restraining order (to be made a permanent injunction) prohibiting the defendant from using the machines to develop photographic film.

The plaintiff affirmed the contract by asking for an accounting; and certainly did not deny the contract by submitting the facts for judgment in the form of a declaration of the rights and duties of the parties.

Proceeding now to a brief argument, it is urged:

POINT 9.

The defense of election of remedies is not before this Court.

Judge James declined (Tr. 133) to pass on this question, saying that it was not necessary to discuss it in view of his decision on the issue of infringement.

The defense of election of remedies does not question the jurisdiction of the court. A court lacks jurisdiction only *when the court is without authority* to hear and determine issues on the merits.

If a plaintiff has, by an *omission* such as failure to bring suit until the statute of limitations has run, lost his right to bring and maintain an action, that fact, if raised as a

defense, goes to the merits, *U. S. v. Oregon Lumber Company*, 260 U. S. 290, 299. By analogy, if a plaintiff has by an act, such as choosing one of two inconsistent remedies, precluded his right to pursue the other remedy, that fact, if raised as a defense, also goes to the merits.

An Appellate Court will not proceed to determine merits on which the Trial Court has not passed. *Willard et al. v. Union Tool Company*, 8 F. 2d (C. C. A. 9) 264.

Should this Court decline to hold with plaintiff on Point 9, we then submit the following:

POINT 10.

The pendency of a prior suit in a state court is not a bar to a suit in a district court of the United States by the same plaintiff against the same defendant for the same cause of action.

Stanton et al. v. Embrey, Administrator, 93 U. S. 548, 554; 23 L. Ed. 983.

This doctrine has been reaffirmed by the Supreme Court whenever the question was before it: *Bryar v. Campbell*, 177 U. S. 649, 654; *Hunt v. N. Y. Stock Exchange*, 205 U. S. 322, 339; *Kline et al. v. Burke Construction Co.*, 260 U. S. 226, 230, and has been followed in eighty or more decisions of other federal courts, as reported in Shepard's Citations.

POINT 11.

No election of remedies occurred because plaintiff's two suits are not inconsistent.

The leading case on election of remedies seems to be *Robb v. Vos*, 155 U. S. 13.

Here the court announced the rule:

“Any decisive action by a party with knowledge of his rights and of the facts, determines his election in the case of *inconsistent* remedies * * *”

The Supreme Court further expounded the doctrine in *United States v. Oregon Lumber Co.*, 260 U. S. 290, quoting with approval from *Robb v. Vos*.

In the *Oregon Lumber* case, the United States had brought an action to cancel land patents. The bill was dismissed (after trial) because barred by the statute of limitations. The present action was then filed to recover damages for fraud in procuring patents to public land.

Mr. Justice Sutherland said, page 294:

“Upon the facts stated the sale was voidable * * * and the plaintiff in error was entitled to disaffirm the same and recover the lands or affirm it and recover damages for the fraud. It could not do both. Both remedies were appropriate to the facts, but they were inconsistent since the first was founded upon a disaffirmance and the second upon an affirmance of a voidable transaction. *Robb v. Vos*, 155 U. S. 13, 43; *Connihan v. Thompson*, 111 Mass. 270, 272, 2 Block on Rescission and Cancellation, Sec. 562, and cases cited.”

In the infringement case here we allege acts done outside the scope of the license. Our prayer is to have those unauthorized acts stopped. There is no inconsistency in seeking such relief and also seeking the recovery of unpaid royalties for rights exercised by the defendants within the scope of the agreement. In neither case is the agreement disaffirmed.

Since the Superior Court action and the present suit *are consistent*, no election of remedies can have occurred.

This conclusion is strengthened by the fact that the infringement action lies whether the license agreement continues or is forfeited. If the agreement continues in force, the acts outside the license have been, and continue to be, infringements. If the agreement is declared forfeited, acts outside the license were infringements until the date of forfeiture and certainly continue to be infringements thereafter.

It must be remembered that in the present action plaintiff seeks redress for acts done outside the scope of the agreement—nothing more.

In the Superior Court case plaintiff did, it is true, pray for forfeiture of the agreement, as one of several alternative remedies. But even if this might have furnished a basis for a charge of inconsistency—which plaintiff denies, plaintiff was mistaken in believing that forfeiture, and an injunction, was its remedy, for in law, it had no such remedy.

Forfeiture of a license will not result “from the fact that the licensee has infringed the patent by doing acts, with the invention, which were unauthorized by the license. The license will not protect him in such things, but it will continue to protect him in doing the acts which it did authorize.”

Walker, Sixth Ed., Sec. 357, page 435.

Citing:

Wood v. Wells, 6 Fisher 383, 1873;

Steam Cutter Co. v. Sheldon, 10 Blatch. 1, 1872.

Therefore, the modification of the developing machine, though constituting an act unauthorized by the license, was not, under the authorities, ground for forfeiture.

Consequently, plaintiff's prayer for termination of the contract—in the state court action—was not justified, on the facts. There was no remedy. Therefore there could be no election.

Moreover, taking a broader view of our own two cases, it is plain that in the first suit containing the prayer to cancel the license, the acts *herein* charged to be infringements were not treated as authorized acts but were treated as tortious acts. Nothing in that suit can be construed as an election by plaintiff to have waived the tort and to have regarded the tortious acts as licensed acts. This, the real test, is supported by *United States v. Oregon Lumber Co., supra.*

Respectfully submitted,

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New York City, October 14, 1932.